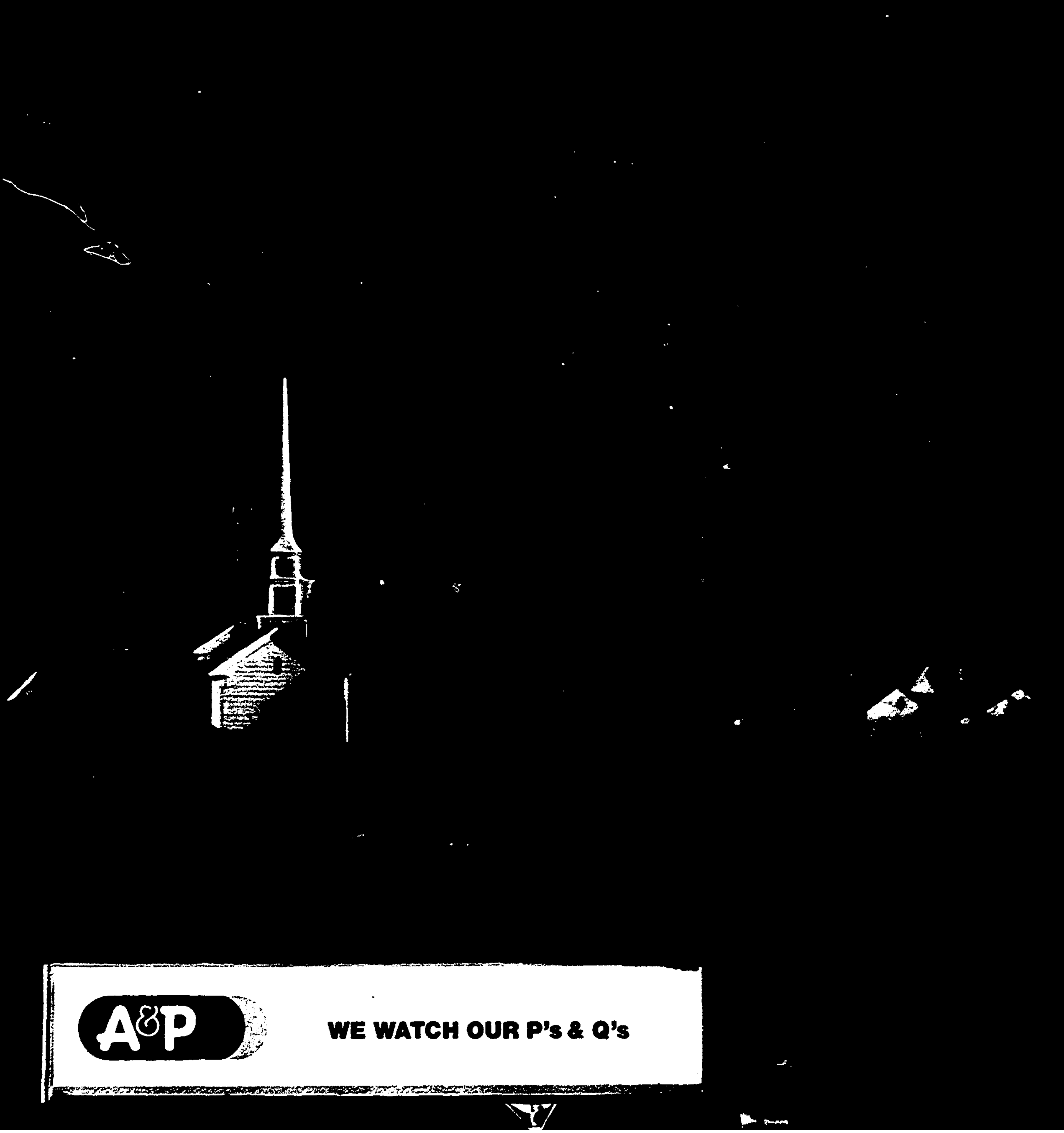
The Great Atlantic & Pacific Tea Company, Inc. Annual Report 1980



Corporate Officers

James Wood
Chairman of the Board of Directors and
Chief Executive Officer

David W. Morrow
President and Chief Operating Officer

Eckart C. Siess
Vice Chairman of the Board of Directors

Allan A. Feder
Senior Executive Vice President,
Manufacturing and Administration

John J. Miles
Senior Executive Vice President,
Supermarket Operations

Alan C. Goulding
Executive Vice President,
Merchandising and Purchasing

Frederick C. Kennedy
Executive Vice President,
President, A&P Canada

James W. Rowe
Executive Vice President,
and Assistant to the Chairman
of the Board of Directors

Rolf J. Schulz
Executive Vice President,
Special Projects

Vito A. Cardace
Senior Vice President,
Controls and Administration

Gerald L. Good
Senior Vice President,
Marketing and Planning

Philip E. Hoversten
Senior Vice President,
Finance and Treasurer

H. Prentice Merritt
Senior Vice President,
Development

Louis A. Savarese
Senior Vice President,
Manufacturing

J. Paul Stillwell
Senior Vice President,
Midwest Group

Ivan K. Szathmary
Senior Vice President,
Information and Administrative Systems

Fritz Teelen
Senior Vice President,
President,
PLUS Discount Foods Inc.

Robert G. Ulrich
Senior Vice President and General Counsel

Randall A. Bostwick
Vice President—
President, Super Market Service Corp.

James B. Burmeister
Vice President—
Carolina Group

Herman J. Freytag
Vice President—
Central Group

James T. Gow, Jr.
Vice President—
Warehousing and Distribution

William W. Jackson
Vice President—
Southeastern Group

Allan W. Jones
Vice President—
Personnel

Louis Kertesz
Vice President—
Produce Merchandising

H. Nelson Lewis
Vice President—
Industrial Relations

James L. Madden
Vice President—
Mid-Atlantic Group

Thomas F. Mayer
Vice President—
Meat Merchandising

Arthur C. Melervey
Secretary

Merlin R. Miller
Vice President—
Labor Control and Loss Prevention

Robert M. Quinn
Vice President and Controller

Michael J. Rourke
Vice President—
Communications and Corporate Affairs

Edward G. Schneider
Vice President—
Metro Group

John C. Sherrard
Vice President—
Pennsylvania Group

Robert L. Spencer
Vice President—
Southern Group

Burton J. Weinbaum
Vice President—
Northeast Group

Larry G. Zettle
Vice President—
Grocery Merchandising

Gregory K. Raven
Assistant Treasurer

Harold N. Tolchinsky
Assistant Secretary

Directors

James Wood (c)
Chairman of the Board of Directors and
Chief Executive Officer

Rosemarie Baumeister (b)
Vice President,
Tengelmann Warenhandelsgesellschaft
West Germany

Harold J. Berry (b) (c)
Chairman, Investment Banking Committee
Merrill Lynch, Pierce, Fenner & Smith Inc.

Walter D. Dance (a) (c)
Director Emeritus and Consultant,
General Electric Company

Allan A. Feder
Senior Executive Vice President,
Manufacturing and Administration

Helga Haub (c)

Barbara Barnes Hauptfuhrer (a)

Sidney A. Kohl (a)
Chairman of the Board of Directors and
Chief Executive Officer,
Ridge Bancorporation
and President and Chief Executive Officer,
Sidney Kohl Company

David W. Morrow (c)
President and Chief Operating Officer

Paul C. Nagel, Jr. (a) (c)

Eckart C. Siess (c)
Vice Chairman of the Board of Directors

Hobart Taylor, Jr.* (b)
Counsel to Jones, Day, Reavis & Pogue,
Attorneys

Fritz Teelen
Senior Vice President,
President,
PLUS Discount Foods Inc.

Henry W. Van Baalen (b)
Consultant,
Tengelmann Group, West Germany

(a) Member of Audit Review Committee
Paul C. Nagel, Jr., Chairman
(b) Member of Compensation Policy Committee
Harold J. Berry, Chairman
(c) Member of Executive and Finance Committee
James Wood, Chairman

*Deceased April 2, 1981

Comparative Highlights

(Dollars in thousands, except per share figures)

For the fiscal year	1980	1979	1978
Sales	**$6,989,529**	$6,684,179	$7,469,659
Net (loss)	**(43,049)**	(3,807)	(52,186)
Net (loss) per share	**(1.35)**	(.15)	(2.10)
Additions to property*	**67,844**	69,707	84,273
Number of stores	**1,543**	1,542	1,771

*Includes leased equipment of $11 million, $2 million and $27 million in fiscal 1980, 1979 and 1978, respectively. Excludes real property leased under capital leases

Contents

Executive Offices
Box 418
2 Paragon Drive
Montvale, New Jersey 07645
Telephone 201-573-9700

Transfer Agent and Registrar
Manufacturers Hanover
Trust Company
New York, New York

The Annual Meeting will be held on Friday, June 26, 1981, at 10 a.m. at the New Orleans Hilton and Towers, Poydras and the Mississippi River, New Orleans, Louisiana 70140. Stockholders are cordially invited to attend.

Copies of the Form 10-K submitted to the Securities and Exchange Commission will be provided to stockholders upon written request to the Secretary.

Common stock of the Company is traded on the New York Stock Exchange under the symbol "GAP," and has unlisted trading privileges on the Boston, Midwest, Philadelphia-Baltimore-Washington, Pittsburgh, Cincinnati and Detroit Stock Exchanges.

To Our Stockholders:

In my first year with A&P, the main endeavor of management has been to reverse a downward sales trend and to achieve stability after a period of retrenchment in store operations.

The large number of store closures in prior years had created an imbalance in the Company that caused inordinately high labor and overhead costs. This resulted in reduced capability to meet aggressive competition with equal pricing and service without generating significant losses.

Our first strategic move was to transfer more responsibility for merchandising and operating decisions from the central headquarters in Montvale to ten geographic locations throughout the United States and Canada. The results of this restructuring have accelerated our response to consumer demand and are gradually improving accountability and controls.

After an adjustment period for this new management concept within our Company, we addressed the many problems of bringing our operational efficiencies, at all levels, more into line with industry norms.

A significant saving has been achieved through a stringent reduction in costs which now enables A&P pricing programs to be a great deal more competitive than at any time in recent history.

We began the 1980 fiscal year with a negative sales trend caused by a sliding economy and strong price competition. The corrective measures taken at mid-year have allowed us to reverse that trend and hold quarterly operating losses to a minimum by strictly controlling costs and overhead.

We reported a net loss for the year of $43,049,000 or $1.35 per share compared with a net loss of $3,807,000 or $.15 per share the previous year. The fiscal year 1980 loss includes a reserve of $9,400,000 provided in the second quarter to cover the costs of an employee severance and early retirement program.

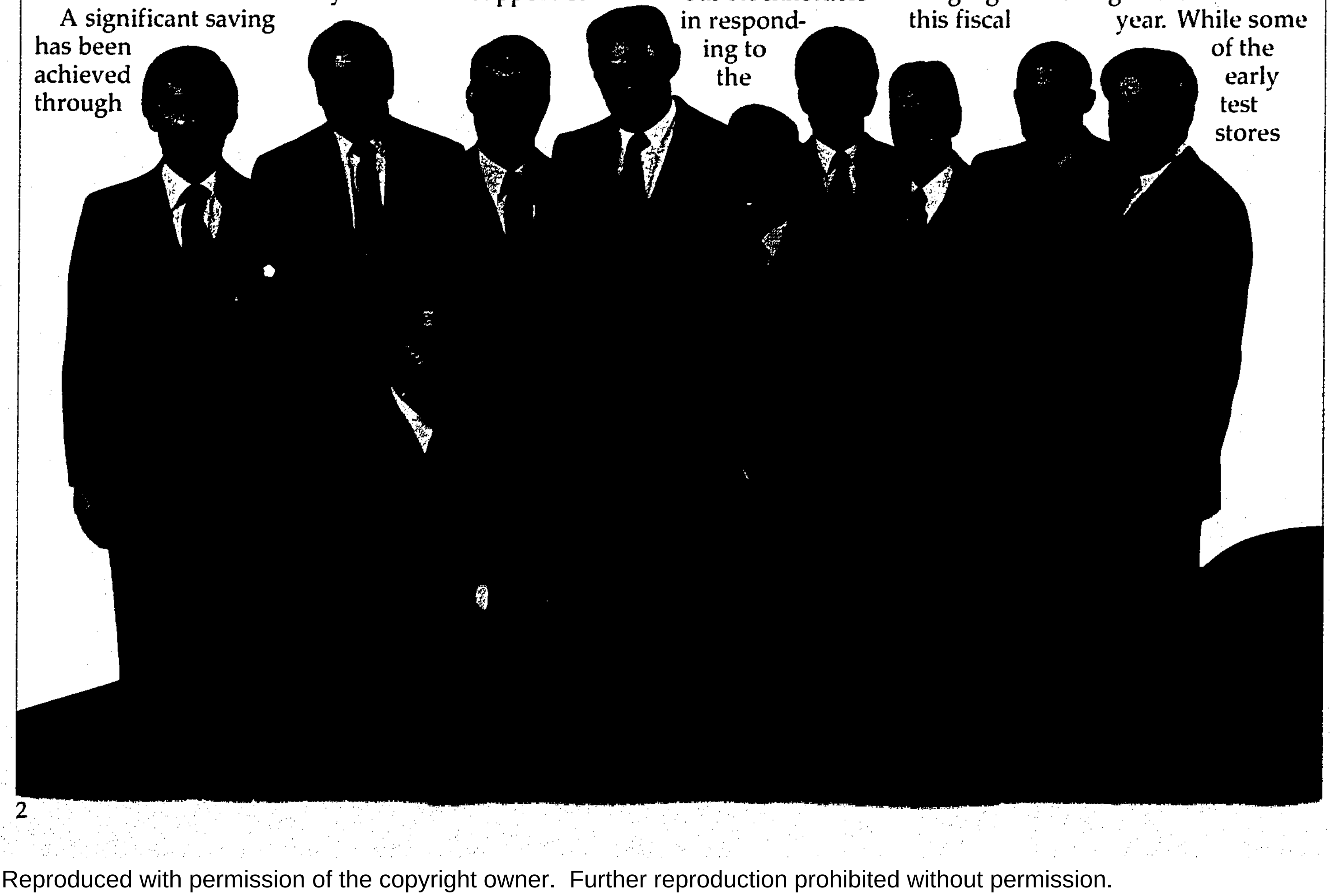
Total sales for the year were $6,989,529,000 compared with $6,684,179,000 in 1979, representing a 4.6 percent increase over the prior year. The 1980 results include 53 weeks as compared with 52 weeks in 1979.

We were gratified by the strong support of our stockholders in responding to the stockholders' rights offering which was completed on August 6, 1980. This preemptive rights offering was fully subscribed and resulted in a capital infusion of $56,250,000 which is being used in the Company's capital investment program.

I reported at our last Annual Meeting, after a short time with the Company, that it was our intention to re-direct our major course of capital spending to the renovation of our existing supermarkets. Capital spending in 1980 amounted to $67,844,000 with four new A&P stores being built, 68 undergoing major remodeling or expansion and 428 having minor refurbishments. Capital spending in 1981 is budgeted at $110,000,000 including 250 store remodelings.

I am pleased to report that this major remodeling endeavor is well on course and we plan to achieve a minimum of five remodeled stores per week.

After an extensive period of testing, our PLUS Discount Foods subsidiary has established a base in trading areas where they show promising signs of being successful in this fiscal year. While some of the early test stores



have been closed in the New Jersey/New York area, 47 were opened primarily in the Baltimore and Philadelphia market areas and we shall add a new division in the current year in Chicago, with a number of new stores being planned.

Two new Family Marts were opened during the year, and further development is planned during 1981. Family Marts are now starting to show improved performance after disappointing results in prior years.

One of the most important breakthroughs since my arrival at A&P has been the tremendous help extended to our Company by the employees and the Unions who represent them. Elimination of operating restrictions in our contracts to improve flexibility has allowed the Company to adjust its work force to a more competitive basis. While the adjustment period created some lapses in our store services, the organization is now settled down to an improved level of service on cost ratios that are closer to industry averages. We are continuing to work as partners with the employee Unions on additional plans which will, over a period of time, bring us more into line with industry norms. A great many of these problems can be reduced, however, by a continuation of sales growth.

Increasing our sales volume per store is a vital goal for A&P. Only by attracting new customers and increasing the average purchase per customer can we develop the sales volume necessary to bring our fixed cost ratios to industry averages. Our greatest challenge in 1981 will be to raise sales increases beyond the inflation level. The Company in recent months has embarked upon a new media/marketing plan which is symbolized by the advertising theme, "At A&P, We Watch Our P's and Q's." We expect the program to build a value image for A&P, establishing a base to develop the sales volume increases needed to achieve long-term profitability.

The Company's financial condition remains strong, with cash and short-term investments at fiscal year-end totaling $107,688,000. Our long-term debt decreased by $649,000 during the year.

For 1981, A&P's most important priority is to bring our mainstream supermarket business back to profitability by operating first class stores. Our efforts to achieve this will concentrate in three important areas:

–Renewing our facilities through remodelings and refurbishments to make them more attractive to today's shoppers.

–Building sales volume through competitive pricing, innovative merchandising and improved product quality and service.

–Continued emphasis on controlling expenses and overhead to improve our cost structure.

It is these three fundamentals which are the key to the future success of A&P and we expect to make significant progress on all of them in 1981.

Our commitments and capabilities are more than equal to the task of overcoming the remaining problems that face us in the early 80's. We continue to enjoy a strong consumer franchise, a solid balance sheet and the important backing of a large and successful European retail company.

We anticipate that 1981 will be another difficult year as the United States economy continues to contend with an inflationary environment while the retail food industry remains extremely competitive. We do, however, expect that A&P will show definite improvement in all aspects of its business.

I am happy to confirm that A&P has reached an agreement in principle under which it will acquire Niagara Frontier Services, Inc., a Buffalo, New York based operator and franchiser of supermarkets and convenience food outlets. Niagara has an experienced management team and a history of profitability, both of which will be valuable contributions to the A&P family. The acquisition is subject to approval by various parties.

I wish to express my personal thanks and appreciation to A&P stockholders, customers and suppliers for your continuing support, and most especially to A&P employees who have undergone many hardships in a very trying year.

I believe a most difficult period is now behind A&P and that the future does indeed hold promise.

James Wood
Chairman of the Board of Directors
and Chief Executive Officer

April 28, 1981

Standing left to right are:
R. G. Ulrich, J. J. Miles,
E. C. Siess, R. J. Schulz,
F. Teelen, J. W. Rowe,
A. C. Goulding and
A. A. Feder.
Seated left to right are:
D. W. Morrow and
J. Wood.

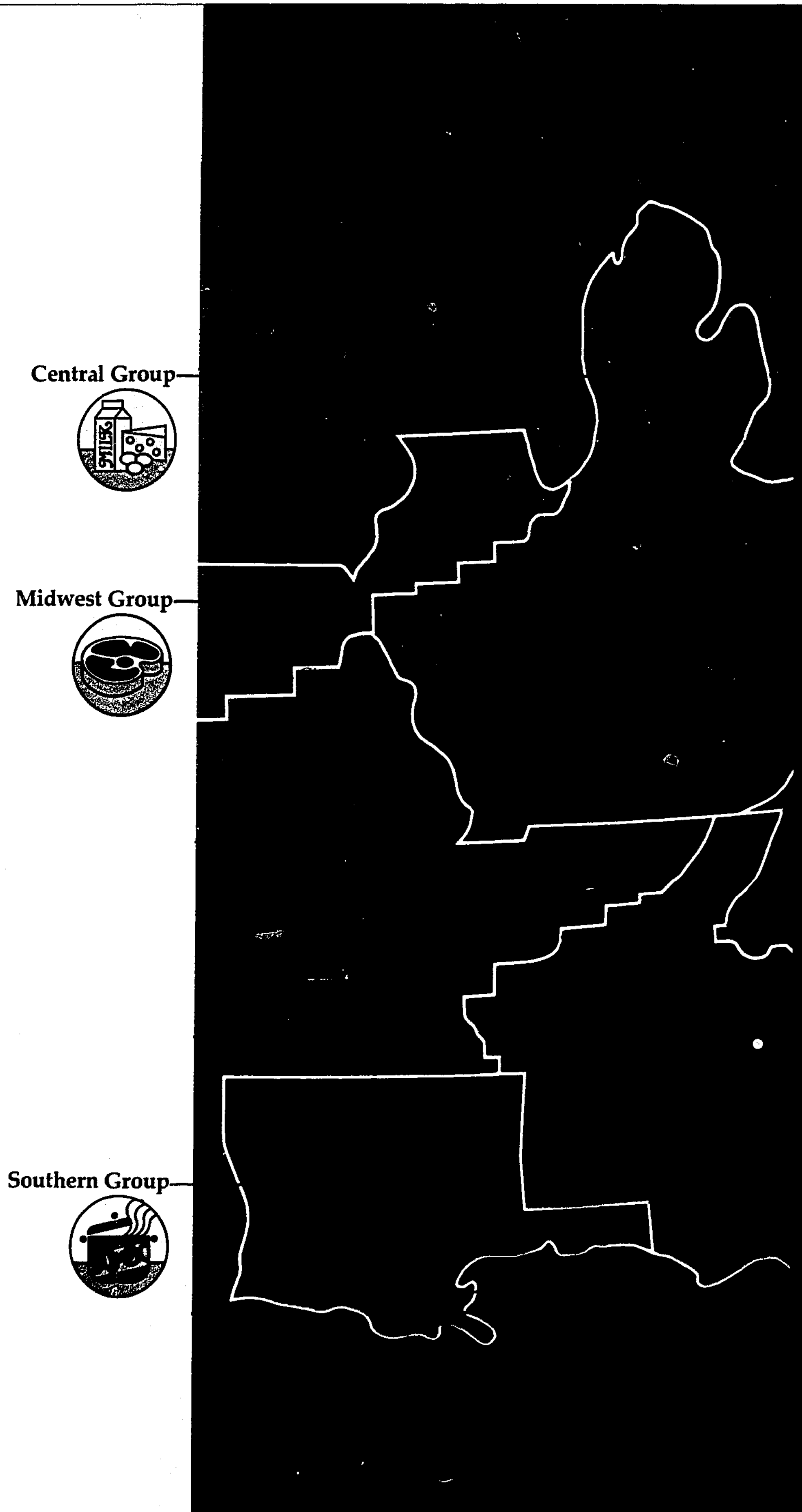
The New Shape of A&P

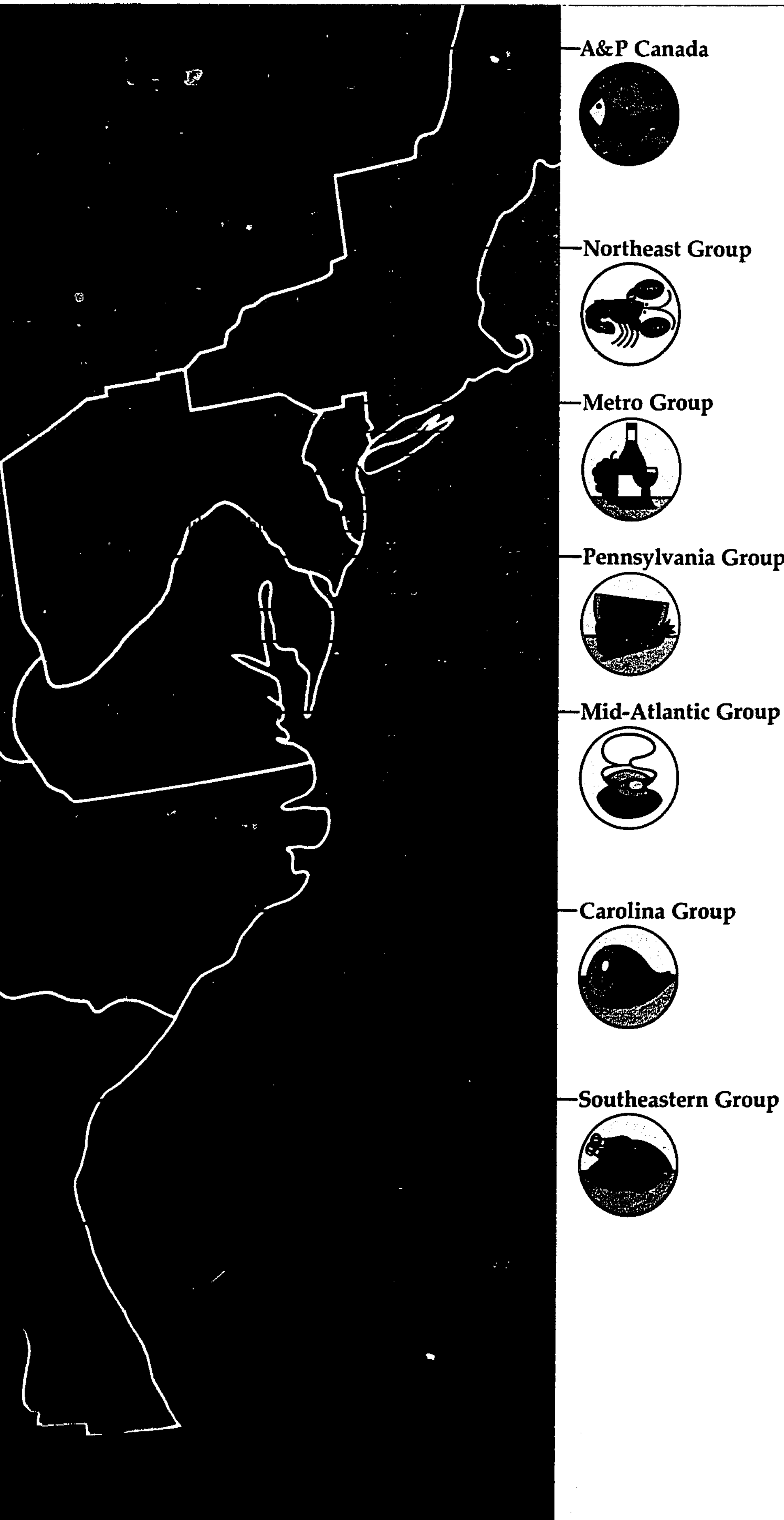
A&P operated 1,543 stores at the end of fiscal 1980 as compared to 1,542 in 1979. There were 1,443 A&P supermarkets in the U. S. and Canada, 78 PLUS stores and 22 Family Marts.

During the year, the Company's field organization was reorganized in order to achieve a closer coordination and control in merchandising and purchasing while establishing more evenly balanced divisions with fewer stores.

At the beginning of the year, A&P had 19 Divisions each responsible for merchandising, procurement and store operations in their geographic areas. The new organization consolidates marketing and procurement functions into 9 U. S. group locations while expanding the number of Divisions responsible for day-to-day store operations from 19 to 27.

This map indicates geographic boundaries of the new Group organizations. It also shows locations of Divisions and Subsidiary offices.



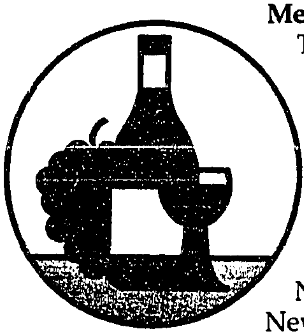


Manufacturing and Processing Facilities

Baltimore, Maryland (two)
Belleville, New Jersey
Brockport, New York
Fairmont, West Virginia
Fort Fairfield, Maine
Fort Washington, Pennsylvania
High Point, North Carolina
Horseheads, New York
Jacksonville, Florida
Kentwood, Louisiana
Landover, Maryland
Plymouth, Wisconsin
Salem, Ohio
Suffolk, Virginia
Toledo, Ohio
Toronto, Ontario

● **A&P Corporate Headquarters**
® **Canadian Subsidiary**
● **PLUS Discount Foods Subsidiary**
○ **Family Mart Subsidiary**
▲ **A&P Division Locations**

Metro Group



The New York Metropolitan area is A&P's largest single market and is also the Company's largest Group, encompassing four Divisions and 254 supermarkets headquartered in Montvale, N.J. While the geographic area is relatively small, the huge population of over 17 million people supports a diversity of food stores. A&P supermarkets range from less than 10,000 square-foot operations in New York City up to 40,000 square-foot stores in New Jersey and Westchester County, New York.

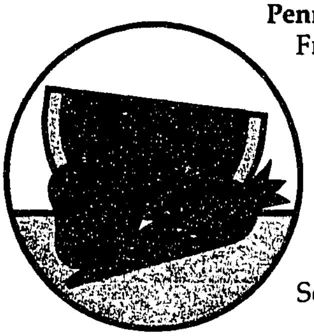
4 Divisions	
Bronx	62 stores
Long Island	70 stores
New Jersey, North	62 stores
New Jersey, South	60 stores
254 Supermarkets	

Northeast Group

The Northeast Group encompasses all of New England and part of upstate New York. Group Headquarters is located in Springfield, Massachusetts, a central location for stores ranging from resort communities around Cape Cod to the New York State Capitol in Albany. The A&P store in Eastport, Maine represents the Company's northern and eastern boundaries in the United States.

3 Divisions	
Boston	39 stores
Albany	32 stores
Springfield	46 stores
117 Supermarkets	

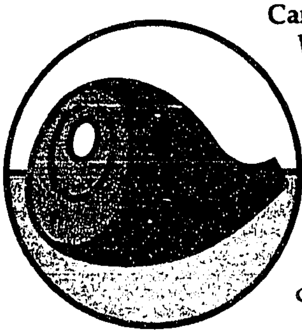
Pennsylvania Group



From the "Pennsylvania Dutch" country to the metropolitan area of Philadelphia, A&P's Pennsylvania Group operates 185 supermarkets. In addition to Pennsylvania, stores are also located in Delaware, southern New Jersey, West Virginia and Maryland. Group Headquarters is located in Philadelphia with Division offices in Altoona, Philadelphia and Scranton.

3 Divisions	
Altoona	67 stores
Philadelphia	58 stores
Scranton	60 stores
185 Supermarkets	

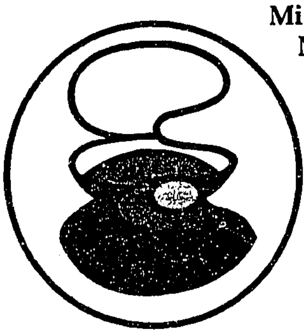
Carolina Group



With Division offices in the North Carolina cities of Charlotte and Raleigh, the Carolina Group covers North and South Carolina with a few stores in Virginia and Georgia as well. A&P supermarkets have a long history of service in this region and we now operate 120 stores in cities, small Carolina towns and resort communities along the coast. The Group Headquarters is located in Charlotte.

2 Divisions	
Charlotte	62 stores
Raleigh	58 stores
120 Supermarkets	

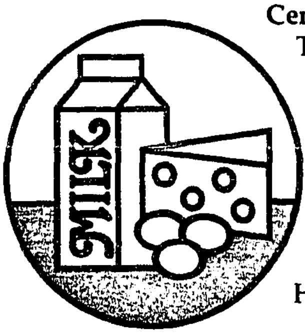
Mid-Atlantic Group



Mid-Atlantic Group stores are located primarily in the states of Maryland and Virginia with a small number reaching into Pennsylvania, West Virginia and the District of Columbia. Group Headquarters is in Baltimore, Maryland where merchandising and advertising plans are formulated to appeal to customers served by all 178 stores in the Group.

3 Divisions	
Baltimore	61 stores
Richmond	66 stores
Washington	51 stores
178 Supermarkets	

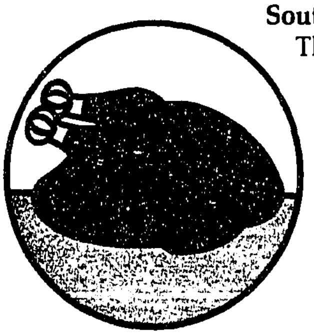
Central Group



The Central Group covers the largest geographic area of any Group in the Company. There are 177 supermarkets spread through the states of Michigan, Indiana, Kentucky, and to a lesser extent, Ohio and southern Illinois. The largest concentration of stores is in and around the Detroit area. Division offices in Louisville and Indianapolis are other focal points. The Group Headquarters is located in Southfield, Michigan.

4 Divisions	
Detroit, North	46 stores
Detroit, Metro/Toledo	45 stores
Indianapolis	36 stores
Louisville	50 stores
177 Supermarkets	

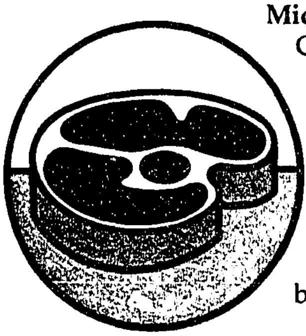
Southeastern Group



The Southeastern Group is headquartered in Atlanta, Georgia and operates 95 supermarkets in the five states of Georgia, Alabama, Florida, Tennessee and Mississippi. Stores in and around Atlanta are part of the Atlanta Metro Division and those outside the Atlanta area are in the Suburban Division. The Florida stores are supervised from the Division Office in Jacksonville.

3 Divisions	
Atlanta, Suburban	34 stores
Atlanta, Metro	35 stores
Jacksonville	26 stores
95 Supermarkets	

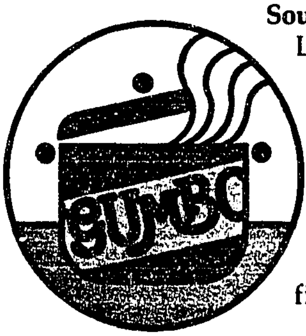
Midwest Group



Chicago is headquarters for the Midwest Group, and A&P has 91 supermarkets in and around the "windy city." Some of the Chicago area stores are in the state of Indiana at the southern end of Lake Michigan. The other Division in the Group is located in Kansas City, Missouri and operates 11 stores in Kansas and 18 in Missouri. The Kansas stores represent A&P's western boundary in the United States.

3 Divisions	
Chicago, Suburban	47 stores
Chicago, Metro	44 stores
Kansas City	29 stores
120 Supermarkets	

Southern Group



Louisiana, Mississippi, Southern Alabama and the northern Florida panhandle are served by 83 supermarkets making up the Company's Southern Group. Headquartered in New Orleans, this area has been A&P territory since before the turn of the century. As in other Divisions, the Southern Group's stores are being enlarged and modernized to provide the finest shopping environment for our customers.

2 Divisions	
New Orleans, Suburban	42 stores
New Orleans, Metro	41 stores
83 Supermarkets	

A&P Canada

The Canadian operations function as separate subsidiaries with headquarters in Toronto, Ontario. Merchandising, procurement, administration and overall planning are supervised from the Canadian headquarters for the 114 supermarkets located primarily in the Province of Ontario. The Canadian Company also operates 15 stores in the Province of Quebec.

Subsidiary Company	
Toronto, Ontario	114 stores
114 Supermarkets	

Marketing
During 1980, the Company initiated a comprehensive marketing strategy aimed at strengthening our position with consumers and improving sales. The strategy involves a carefully planned five-phase program that was thoroughly tested in our two New Jersey Divisions in the Fall of 1980 before initiation of the program in other parts of the Company. The five phases include detailed plans of action in priority areas of supermarket operations:

Store Refurbishing—Property Development managers conduct a complete audit of all stores in the Division to establish a paint-up, fix-up schedule that will bring current facilities to their best operating conditions in the shortest period of time. This is an immediate effort, separate from the longer term store remodeling program which involves more extensive capital expenditures for modernization and expansion.

Pricing Systems—Marketing specialists from Headquarters work with the Group staff on a thorough review of competitive pricing throughout the Group's geographic region. The key objective of the program is to improve A&P's price image with consumers and establish a consistent system of competitive pricing in all marketing areas.

Merchandising Strategy—After developing the new pricing system, Group management plans their store merchandising strategies for greatest customer impact. Each store is redressed with new point-of-sale material emphasizing reduced prices and "Green P Specials." Then weekly display and advertised items plans are finalized to coincide with the introductory advertising campaign.

Advertising Campaign—The advertising theme, "At A&P, We Watch Our P's & Q's," projects a new "Value Image" to customers. The P's mean low Prices and the Q's mean high Quality. In newspaper and broadcast

As part of our new marketing efforts, each A&P store is refurbished and fitted out with new point-of-sale materials emphasizing the new advertising theme, "At A&P, We Watch Our P's & Q's."

advertising, heavy emphasis on "Green P Specials" every week alerts shoppers to the hundreds of sale items identified by Green P signs in the stores. In addition to offering more competitive prices, the advertising also restates our promise of greater quality in our personnel, customer services and the merchandise we sell.

Customer Courtesy—Communicating all aspects of this marketing strategy to store personnel is an especially important phase. As each A&P Group implements the program, meetings are held with store managers who in turn hold their own meetings at the store level. Customer courtesy is emphasized with special attention to check-out service and procedure. Part of this phase includes customer voting to identify top staff members and cashiers who are acknowledged through an awards program.

This new five-part strategy is being implemented throughout the Company during 1981 to establish the base for long-term sales growth and expansion.

Facilities

During 1980, our retail stores served an average of 11 million customers each week. The vast volumes of meat, produce, grocery and other products moving through the stores are transported from our 36 distribution and packing facilities by a fleet of modern trucks. Many of the A&P and Ann Page private label products are also manufactured or processed in one of our 17 manufacturing facilities. Continually upgrading this complex of retail and support facilities is an ongoing objective for A&P.

During 1980, 428 A&P supermarkets were refurbished as part of our new marketing strategy. We opened four new A&P supermarkets and 68 received major remodeling or expansion work. Forty-nine stores were closed during the year.

Remodeling Program—In 1981, we will continue the extensive refurbishment program related to our marketing efforts and also introduce a long-range remodeling program to insure that all A&P stores receive major remodeling and modernization at least once in every seven-year period. In beginning this plan, approximately 250 A&P stores are scheduled for major remodeling and/or expansion during 1981 and the work is planned to continue at that level on a continuous basis. By combining those stores that will be remodeled or refurbished, we will be able to improve over 800 A&P stores in a two-year period.

Important ingredients in these remodeling efforts will be to add key departments that have special appeal for today's modern consumer. We will be adding bakeries, delicatessens and other special departments to improve customer services.

PLUS Stores—Our PLUS Discount Foods subsidiary added 47 new stores during 1980 and was operating 78 limited assortment stores at year-end. These kinds of stores are able to offer very low prices by keeping operating

Competitive pricing is an important ingredient in the new marketing program. Shelf tags calling the customers' attention to "Green P Specials" are used to identify sale items throughout the store. Yellow tags identifying low prices are used to indicate the fastest moving items that have received recent permanent reductions.

expenses to an absolute minimum. Each store carries less than 1,000 items with major brands and PLUS private label products being offered in the most popular grocery categories. A limited assortment of packaged meats, frozen foods and produce is also available to customers of our PLUS stores. The PLUS concept is finding a niche on the American scene and appeals to large numbers of consumers who are looking for low prices and are willing to forego variety and customer services in order to achieve savings on basic food items. In 1981, the PLUS stores will be experimenting with broader selections of produce items and testing other ways to build consumer acceptance of the limited assortment concept.

Family Mart—The Family Mart subsidiary, headquartered in Atlanta, Georgia, added two new combination food-drug stores in 1980. These stores are 55,000 square-feet and carry a broad selection of drugs, pharmaceuticals, cameras, jewelry, cosmetics and other general merchandise items to appeal to the need for one-stop shopping. We are in the process of revising our Family Mart store format to include a new one planned at about the 45,000 square-foot size with more emphasis on food departments and reduced emphasis on less popular general merchandise lines.

Manufacturing—In our manufacturing and processing facilities, we continue to make improvements in capacity utilization through increased internal sales largely in generic and PLUS private label products. We have also added volume outside of our retail operations through sales by our Compass Foods subsidiary. Compass Foods' growth has been truly dynamic in the domestic market during the past year with particular success in selling Eight O'Clock coffee to other retail chains in non-A&P markets.

Our Supermarket Systems subsidiary is anticipating the opening of the first major supermarket project in Saudi Arabia during the coming year. Supermarket Systems is the A&P subsidiary which assists foreign investors to develop and create food distribution systems in other countries.

The new advertising campaign focuses on "Green P Specials," the use of super coupons and other aggressive merchandising programs every week.

People
At the end of 1980, our Company had 60,000 employees. A large number of them have been long-term A&P employees with the average tenure of the total labor force being over twelve years with the Company. Eighty-two percent of these employees are covered by union contracts. Many of our employees are also shareholders of A&P.

A&P people are the strength of the Company. They include the professionals who back up our store organizations in selecting, buying, transporting and processing the vast amounts of food products from the farms, ranches and distribution facilities to our stores every day. But all of the resources of the corporation, all of its support systems, its purchasing power and its manufacturing capabilities are represented to our customers by our store employees. The contact between the customer and the in-store personnel, the meat managers, produce people, the deli department service staff, and especially our cashiers, form the foundation of customer attitude and loyalty that is so vital to our success.

Providing the customer with the best service possible while maintaining a control on store labor costs to assure competitive pricing has been one of the difficult challenges A&P has had to cope with for a number of years. The difficulty has been accentuated in the past as the number of stores was reduced, resulting in a more senior labor force with higher overall labor costs. As we stabilize store reductions and add new stores, we will work to develop a better balance in the work force.

Productivity—The true measure of our competitiveness in the supermarket industry is the labor cost per sales dollar in each of our stores. As we attract more customers and improve that key ratio, it will help us accelerate improvements in efficiency, productivity and customer service. A&P is dedicated to the task of continuing to direct time, energy and money toward refining the skills, improving the performance and building on our greatest single asset—the people of A&P.

During the year—The Company mourned the death of Richard J. Flositz, Executive Vice President—Atlantic Group. Mr. Flositz had five years of service with A&P.

Subsequent to year-end the Company also mourned the death of Mr. Hobart Taylor, Jr. Mr. Taylor had been a member of A&P's Board of Directors since 1971.

Special recognition for store employees who are voted by customers to be especially courteous and helpful is part of our new employee courtesy program.

Fiscal Year—The Company's fiscal year ends on the last Saturday in February. Fiscal 1980 ended February 28, 1981 and comprised 53 weeks, whereas fiscal 1979 and fiscal 1978 ended February 23, 1980 and February 24, 1979, respectively, and comprised 52 weeks each.

Principles of Consolidation—The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly-owned. All significant intercompany accounts and transactions have been eliminated.

Foreign Operations—Assets and liabilities of foreign subsidiaries have been translated at year-end rates except for inventories, net property and certain deferred items which have been translated at historical rates. Income and expense accounts, except cost of merchandise sold and depreciation and amortization, have been translated at average rates prevailing during the fiscal year. The foreign exchange loss in fiscal 1980 amounted to $1.8 million compared with a gain of $.6 million in fiscal 1979 and a loss of $2.0 million in fiscal 1978.

Inventories—Inventories are stated at the lower of cost or market, with cost being determined on the following bases: inventories in stores—average cost under the retail method; other inventories, primarily in warehouses and manufacturing facilities—cost on a first-in, first-out basis. Raw materials and supplies, principally at manufacturing facilities, constituted approximately 7% of total inventories in fiscal 1980 and 1979.

Properties—The Company leases a substantial portion of its facilities and a majority of store leases are considered to be operating leases. The assets and obligations for stores leased under capital leases which are closed prior to lease expiration are eliminated from the accounts as of the date of closing and an accrual is provided for anticipated costs to be incurred upon the ultimate disposition of the facility.

Owned land and buildings consist primarily of manufacturing facilities and warehouses. Equipment, store fixtures and leasehold improvements generally are owned, although beginning in 1977 the Company has entered into equipment leasing programs for store equipment and trucks, most of which are accounted for as capital leases. Major additions and betterments are capitalized, whereas maintenance and repairs are charged to operations as incurred. When properties are replaced, retired, or otherwise disposed of, the cost of such properties and the accumulated depreciation are eliminated from the accounts in the year of sale or retirement. The gain or loss on the disposition of assets is recognized currently. Net losses on the disposition of closed facilities are charged to reserves previously provided therefor (see Closed Facilities accounting policy below).

Depreciation and Amortization—For financial reporting purposes, depreciation and amortization are provided, generally on the straight line method, over the estimated useful lives of the respective assets. Approximate annual depreciation rates for properties are as follows: buildings—2% to 5%; store and other equipment, except automotive—8⅓% to 10%; store fixtures and leasehold improvements—10% to 12½% and automotive equipment—14²/₇% to 33⅓%. Equipment and real property leased under capital leases are amortized over the lives of the respective leases.

Pre-opening Costs—Costs incurred in the opening of a new store are expensed in the quarter in which the store is opened.

Closed Facilities—The Company provides for the estimated loss on the disposition of leased or owned facilities in the period in which the decision to close the facility is made. For significant closing programs, provisions are established for estimated closing costs including remaining store lease obligations, loss on disposition of store equipment, employee severance payments and other employee benefits, future operating losses of facilities to be closed and other related costs. The sales for those stores included in such significant closing programs are excluded from the statement of consolidated operations from the effective dates of inclusion in the programs.

Income taxes—The Company's policy is to provide deferred taxes in recognition of timing differences between income for financial reporting and income tax purposes. However, due to the Company's U.S. tax loss carryforward position, no deferred taxes have been provided on the differences between U.S. financial and taxable income. Approximately $7 million of deferred income taxes have not been provided on undistributed earnings of foreign subsidiaries considered to be permanently invested. Approximately $19.4 million of retained earnings of the Company's Canadian subsidiaries can be remitted without any additional tax liability. Investment tax credits, previously utilized for tax purposes, have been deferred and are amortized over the estimated useful lives of the related assets.

Retirement Plans—Annual costs of the Companies' pension plans, which are provided for currently, consist of normal cost, amortization over 40 years of unfunded prior service costs as of January 1, 1976, amortization over 30 years of changes in the unfunded actuarial liability resulting from plan amendments and changes in actuarial assumptions and amortization over 15 years of annual actuarial gains or losses. Annual costs under union/management administered plans are expensed as provided for in the respective collective bargaining agreements.

Earnings Per Share—Net income (loss) per share is based on the weighted average number of common shares outstanding during the respective fiscal years. Stock options outstanding (common stock equivalents) had no material effect and, therefore, were excluded from the computation of net income (loss) per share.

Quarterly Information (unaudited)—The following table summarizes the Company's results of operations by quarter for fiscal years 1980 and 1979. Management's Discussion and Analysis, page 24, discusses these results and significant changes reflected therein.

	Quarterly Operating Results					Per Share Amounts			
	Number of Stores	Sales	Gross Margin	Income (Loss) before Extra-ordinary Item	Net Income (Loss) (a)	Income (Loss) before Extra-ordinary Item	Net Income (Loss)	Market Price High	Market Price Low
Fiscal 1979		(millions)		(thousands)					
First Quarter	1,582	$1,663	$ 364	$ 3,368	$ 4,618	$ .14	$ .19	$ 8	$ 6½
Second Quarter	1,551	1,681	368	2,714	3,914	.11	.16	10⅜	7¼
Third Quarter	1,551	1,661	359	1,148	1,148	.05	.05	9⅝	7⅝
Fourth Quarter	1,542	1,679	352	(11,037)	(13,487)	(.44)	(.54)	8⅝	7¼
		$6,684	$1,443	$ (3,807)	$ (3,807)	$ (.15)	$ (.15)		
Fiscal 1980									
First Quarter	1,524	$1,645	$ 347	$(14,936)	$(14,936)	$ (.60)	$ (.60)	$ 7¾	$ 4⅝
Second Quarter	1,530	1,710	364	(15,961)	(15,961) (b)	(.59)	(.59)	6⅛	4⅝
Third Quarter	1,544	1,744	373	(7,963)	(7,963)	(.21)	(.21)	7¼	5
Fourth Quarter (c)	1,543	1,891	393	(4,189)	(4,189)	(.11)	(.11)	6½	4½
		$6,990	$1,477	$(43,049)	$(43,049)	$(1.35)	$(1.35)		

(a) Net income for the first and second quarters of fiscal 1979 includes charges in lieu of U.S. Federal income taxes, as well as equivalent amounts reflected as extraordinary credits representing the recognition of the corresponding tax benefit from the utilization of the Company's U.S. operating loss carryforward. Such amounts were reversed in the fourth quarter of fiscal 1979 as a result of the net loss incurred in that period.

(b) Net income for the second quarter of fiscal 1980 includes a charge for $9.4 million to cover estimated costs of an employee severance and early retirement program instituted to balance the store labor force.

(c) Fourth quarter results for fiscal 1980 include 14 weeks as compared with 13 weeks in all other quarters.

Closed Facilities—In recent years the Company has commissioned two major studies with outside consulting firms to analyze and evaluate the Company's organization and operations. These studies were intended to provide the basis for the reorganization and revitalization of the Company's business. A total of 1,624 stores have been closed, prior to fiscal 1980, pursuant to these programs.

Reserves of $200 million in fiscal 1974, later reduced by net reversals of $34.5 million, and increased by an additional $51.7 million in fiscal 1978 were provided to cover the costs of these programs. Since inception, costs aggregating $206 million, including losses from operations prior to closing, losses on the disposition of properties and equipment, employee severance payments and other benefits, costs of dismantling and moving equipment, restoring leased properties and lease payments made after the facilities were closed, were charged to these reserves.

The activity for fiscal 1980, 1979 and 1978 relative to the Closed Facilities reserve is summarized in the table below. Activity relating to reserves provided for closing of facilities under the Company's continuing program of evaluating all aspects of its operations is also included therein.

(Dollars in millions)	Current Liabilities	Property Valuation	Non-Current Liabilities	Total
Balance February 25, 1978	$ 3.0	$ —	$ 15.1	$18.1
Charges—net	(5.3)	—	.8	(4.5)
Transfer to Current Liabilities	4.3	—	(4.3)	—
Anticipated Cost of Restructuring Program	33.8	8.3	9.6	51.7
Balance February 24, 1979	35.8	8.3	21.2	65.3
Charges—net	(32.0)	(7.5)	(2.7)	(42.2)
Transfer to Current Liabilities	3.8	—	(3.8)	—
Balance February 23, 1980	7.6	.8	14.7	23.1
Charges—net	(4.2)	(.3)	(3.2)	(7.7)
Transfer to Current Liabilities	.8	—	(.8)	—
Balance February 28, 1981	**$ 4.2**	**$ .5**	**$10.7**	**$15.4**

Stock Options—The Company has a stock option plan, approved by the stockholders in June 1975, under which officers and key employees may be granted qualified or non-qualified options to purchase not more than 1,000,000 shares of common stock at not less than the fair market value at grant dates. At February 28, 1981, there were 300,400 shares available for future option grants and 352,600 were available at February 23, 1980. Of the non-qualified stock options outstanding at February 28, 1981, 425,000 were exercisable at the date of grant and the remaining 254,500 at cumulative 25% increments after each of the first through the fourth anniversaries of the grants. Qualified options are exercisable at cumulative 25% increments after each of the first through the fourth anniversaries of the grants. Proceeds from the exercise of stock options are credited to common stock for the aggregate par value of shares issued and the excess is credited to capital surplus, including $1,000 in fiscal 1980 and $2,400 in fiscal 1979. A summary of option transactions is shown in the table below.

	Shares Qualified	Shares Non-Qualified	Option Price Per Share	Option Price Total
Outstanding, February 24, 1979	162,500	572,000	$ 5.88 to $12.56	$ 7,330,140
Fiscal 1979:				
Exercised	—	(500)	5.88	(2,940)
Cancelled or expired	(24,500)	(63,500)	5.88 to 12.25	(888,625)
Outstanding, February 23, 1980	138,000	508,000	$ 5.88 to $12.56	$ 6,438,575
Fiscal 1980:				
Granted	—	230,000	4.94 to 6.19	1,158,700
Exercised	—	(200)	5.88	(1,176)
Cancelled or expired	(119,500)	(58,300)	5.88 to 12.56	(1,789,629)
Outstanding, February 28, 1981	18,500	679,500	$ 4.94 to $12.56	$ 5,806,470
Shares becoming exercisable in:				
Fiscal 1979	32,000	73,375	$ 5.88 to $12.56	$ 1,050,991
Fiscal 1980	4,625	275,375	$ 4.94 to $12.44	$ 1,641,150

Shares exercisable: 646,875 at February 28, 1981 and 517,875 at February 23, 1980.

Retirement Plans—The Company provides retirement benefits for substantially all non-union and some union employees under the Company Retirement Plans. Most other full-time and certain part-time union employees are covered by industry plans administered jointly by management and union representatives. The cost of all retirement plans amounted to $37.2, $42.5 and $47.9 million in fiscal 1980, 1979 and 1978, respectively.

A comparison of accumulated plan benefits and plan net assets for the Company's plans is as follows:

(Dollars in thousands)	December 31, 1980
Actuarial present value of accumulated plan benefits:	
Vested	$178,906
Non-Vested	$ 5,864
	$184,770
Net assets available for benefits	$353,543

The weighted average assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 9.0 percent in fiscal 1980. The assumed rate of return used was that published by the Pension Benefit Guaranty Corporation, an agency of the U.S. Government, for the applicable valuation date.

The Company's Canadian pension plans are not required to report to U. S. governmental agencies pursuant to ERISA and do not otherwise determine the actuarial value of accumulated benefits or net assets available for benefits as calculated and disclosed above. For those plans, the actuarially computed value of vested benefits as of December 31, 1980 was exceeded by the total of those plans' assets and balance sheet accruals.

The Company could, under certain circumstances, be liable for substantial unfunded vested benefits or other costs of jointly administered union/management plans.

Litigation—In the 1974 Annual Report, the Company reported on an antitrust judgment entered in favor of a Mr. Bray and five other cattle producers or feeders in the amount of $35.8 million plus interest. The Company settled this action in 1975 (for payments ending in 1980 having a present value of about $7 million, which was charged to operations in fiscal 1975) and the judgment was vacated and the action dismissed.

During 1975 and 1976, nine similar antitrust suits, alleging violations of sections of the Sherman Act were filed in five states, and all of these were consolidated for pretrial purposes in the Dallas Federal Court. One of these actions was purportedly brought on behalf of a class consisting of all persons who are engaged in the business of raising fat cattle who have not otherwise filed claims and who sold more than 100 head of cattle per year. Each of these suits names the Company and other retail food chains as defendants and asks damages and other relief which may include an injunction. While most of these plaintiffs have not specified the amounts of damages they are claiming, their aggregate claims are substantial. In the actions in which money damages are specified or estimated, the plaintiffs allege damages exceeding $270 million.

On December 27, 1977, the District Judge hearing these actions entered a judgment dismissing all of them on the ground that plaintiffs had not sold directly to the retail food chain defendants, following Illinois Brick Co. v. the State of Illinois, 431 US 720 (1977). In all but one of such actions, the plaintiffs appealed the judge's ruling and succeeded in having his dismissal ruling reversed. During 1977, seven additional antitrust suits alleging similar violations of the Sherman Act and seeking unspecified treble damages were filed in Texas and Utah. In certain of these new suits, meat packers to whom plaintiffs may have sold some of their cattle, are included as alleged co-conspirator defendants with the food chains. All these actions have been transferred to the Dallas Federal Court for pretrial purposes. A similar action has also been filed in California Superior Court but has been dismissed upon motion of the defendants and is presently on appeal.

In the above private actions, all of which are in the preliminary pretrial stages, money damages awarded to plaintiffs, if any, would automatically be trebled and such a judgment would also include reasonable plaintiffs' attorneys' fees.

The Company is also a defendant in an action filed on November 20, 1978 in the United States District Court for the Southern District of New York by Carmelo Maimone, his company and his associates. The Complaint alleges that defendants A&P and Booz Allen & Hamilton, Inc. agreed to reduce the number of A&P stores and discouraged developers from finding suitable tenants or from developing shopping centers for other tenants and that the Company breached its obligations to plaintiff. The Complaint alleges antitrust and other violations of law; it seeks treble damages and other damages in the amount of $33,000,000 and $9,000,000 in punitive damages, as well as costs, attorneys' fees and other relief.

The Company denies all allegations of wrong-doing in the above-mentioned actions. No provision for possible liability has been made in the accompanying financial statements.

On November 6, 1980, a Kings County, New York grand jury indicted seven New York City consumer affairs inspectors, thirteen stores and supermarket chains and fifty-seven of their employees (including ten Company store managers) on charges relating to illegal payments. The Company was included among the companies indicted; however, the Company denies all allegations of wrongdoing in this matter and has pleaded not guilty to all counts.

As the result of the investigation of a charge filed on October 18, 1974, the Equal Employment Opportunity Commission ("Commission") issued a determination finding probable cause to support the allegation that the Company, several international unions and certain of their locals have violated the Civil Rights Act of 1964, as amended, by engaging in patterns and practices of employment discrimination. The Commission has submitted a proposed Consent Decree which would enjoin the defendants from the alleged discrimination in hiring, promotion and other employment practices, and require remedial measures, detailed implemental procedures and payments to alleged victims of discrimination.

The Company is also involved in various other claims, administrative agency proceedings and other lawsuits arising out of the normal conduct of its business.

Although the ultimate outcome of the legal proceedings cannot be predicted, the Company's present opinion is that any resulting liability will not have a material effect upon the Company's financial position.

Lease Obligations—The Company operates primarily in leased facilities as it believes that its capital can be invested more productively in inventories and store equipment. Lease terms generally range up to twenty-five years for store leases and thirty years for other leased facilities, with options to renew for additional periods. The majority of the leases contain escalation clauses relating to real estate tax increases and certain of the store leases provide for increases in rentals when sales at the stores exceed specified levels. In addition, the Company leases some store equipment and trucks because of financial and tax considerations.

The Company accounts for leases in accordance with Statement No. 13 of the Financial Accounting Standards Board. Accordingly, the February 28, 1981 balance sheet includes $146,850,000, net of accumulated amortization of $77,105,000, for real property leased under capital leases and $34,014,000, net of accumulated amortization of $13,743,000, for equipment leased under capital leases. The February 23, 1980 balance sheet includes $154,758,000, net of accumulated amortization of $67,865,000, for real property leased under capital leases and $28,226,000, net of accumulated amortization of $8,594,000, for equipment leased under capital leases. The capitalized value of equipment leased under capital leases is included with owned equipment in the accompanying balance sheet.

Rent expense for operating leases aggregated $70,135,000, $71,476,000 and $77,126,000 in fiscal 1980, 1979 and 1978, respectively, including $3,599,000, $3,953,000 and $4,485,000 in contingent rentals. The minimum annual rentals for leases in effect at February 28, 1981 are shown in the table below. All amounts are exclusive of lease obligations and sublease rentals applicable to closed facilities.

Minimum Annual Rentals

		Capital Leases		Operating
(Dollars in thousands)	Fiscal	Equipment	Real Property	Leases
	1981	$ 8,377	$ 29,679	$ 53,119
	1982	8,377	29,114	51,675
	1983	8,377	28,502	45,781
	1984	8,371	27,936	40,065
	1985	6,814	27,517	34,319
	1986 and thereafter	8,019	278,658	225,556
		$48,335	$421,406	$450,515
Less executory costs		—	(15,466)	
Net minimum rentals		48,335	405,940	
Less interest portion		(12,508)	(226,299)	
Present value of net minimum rentals		$35,827	$179,641	

Indebtedness—Under restrictive covenants contained in the Note Agreements relating to the Company's 9½% Senior Notes issued in September 1977, the Company is presently prohibited from declaring or paying dividends (other than stock dividends) on its common stock. As of February 28, 1981, the Company would have had to have additional Consolidated Net Earnings (as defined) in excess of $76.4 million in order to declare any dividends on its outstanding common stock, in which event, the payment of dividends would be limited to 75% of such excess. The Company is also required to maintain Consolidated Working Capital (as defined) of not less than $175 million. At February 28, 1981, Consolidated Working Capital (as defined) was $278.5 million. Such Note Agreements also place limitations on the incurrence of additional indebtedness and lease commitments.

Maturities of long-term debt during each of the next five fiscal years are as follows:

1981	$ 1,737,000
1982	1,782,000
1983	11,819,000
1984	11,804,000
1985	11,503,000

The Company has established $92 million in lines of credit with commercial banks. There were no borrowings made under these lines during fiscal 1980 or 1979.

With respect to the lines of credit, there are informal arrangements with certain of the banks to maintain compensating balances, expressed in bank collected balances. Such compensating balances requirements are not significant.

Long-term debt (exclusive of current maturities) consists of:

(Dollars in thousands)	**February 28, 1981**	February 23, 1980	February 24, 1979
9½% Senior Notes, due in 10 annual installments of $10,000 commencing October 1, 1983	**$100,000**	$100,000	$100,000
9⅞% Mortgage Notes, due in monthly installments of $83 through September 29, 1997	**15,667**	16,667	17,667
Other notes, interest rates of ⅞% to 9¼%, due 1982 to 2002	**14,365**	14,014	14,971
	$130,032	$130,681	$132,638

Income Taxes—The provision for income taxes consists of the following:

(Dollars in thousands)	Fiscal 1980	Fiscal 1979	Fiscal 1978
Relating to operations:			
Current:			
Canadian	**$4,657**	$3,206	$ 50
State and local	**262**	1,136	300
Amortization of investment tax credits	**(412)**	(792)	(1,200)
	4,507	3,550	(850)
Deferred—Canadian	**2,493**	1,115	2,450
	$7,000	$4,665	$ 1,600
Relating to Restructuring Program:			
Deferred—U. S.	**$ —**	$ —	$(11,669)

The anticipated cost of the Restructuring Program provided for in fiscal 1978 is deductible for income tax purposes as costs are actually incurred. The realization of the entire potential tax benefit of such costs was not considered assured beyond a reasonable doubt because of the Company's existing tax loss carryforward. Accordingly, only $11.7 million of deferred taxes, which was equivalent to previously provided net deferred U.S. income taxes that would have become due during the tax loss carryforward period, were recognized for financial statement purposes in fiscal 1978.

The deferred Canadian provisions result from the excess of depreciation deductions of a Canadian subsidiary for tax purposes over amounts recorded for financial statement purposes. Fiscal 1980 and 1979 also include a provision for tax on current undistributed earnings of Canadian subsidiaries.

At February 28, 1981, the Company had a U.S. operating loss carryforward, for financial statement purposes, of approximately $217 million which arose principally from provisions for closing of facilities made in fiscal 1974 and 1978. For tax purposes, the Company's U.S. operating loss carryforward is approximately $134 million which will expire as follows: fiscal 1982—$69 million, fiscal 1983—$7 million, fiscal 1984—$10 million, fiscal 1986—$23 million, fiscal 1987—$25 million. In addition, the Company has unused investment tax credits, of approximately $35 million. These unused credits, which have not been recognized for financial statement purposes, will expire as follows: fiscal 1981—$4 million, fiscal 1982—$6 million, fiscal 1983—$7 million, fiscal 1984—$7 million, fiscal 1985—$3 million, fiscal 1986—$4 million and fiscal 1987—$4 million.

The difference between the Company's effective tax rate and the U.S. and Canadian statutory tax rates is attributable to the fact that no U.S. tax provision was required due to the U.S. operating losses, a lower statutory rate for a Canadian non-resident subsidiary, the Company's policy of amortizing investment tax credits, the effective rates of state and local income taxes, unrealized foreign exchange translation gains and losses and also, in fiscal 1978, the previously discussed reversal of $11.7 million of deferred taxes.

Canadian income before income taxes totaled $13.4 million, $10.4 million and $3.5 million in fiscal 1980, 1979 and 1978, respectively.

Capital stock—On June 27, 1980 the Stockholders approved an amendment to the Certificate of Incorporation increasing the authorized common stock to 80,000,000 shares from 40,000,000 shares.

On August 6, 1980 the Company completed a rights offering in which all shares of common stock which had been offered were fully subscribed for. This resulted in a capital infusion of $56,250,000 which was used in the Company's capital investment program and resulted in the issuance of 12,500,000 additional outstanding shares. TN Delaware Incorporated ("TN"), the Company's largest stockholder at that time, participated in the offering. With the additional shares acquired under the offering, as well as with other shares previously purchased, TN owned approximately 48% of the Company's outstanding common stock at the expiration of the offering period.

On December 10, 1980, TN was dissolved as a corporate entity and all of the shares of the Company's common stock owned by it were transferred to its sole stockholder, Tengelmann Warenhandelsgesellschaft ("Tengelmann"). As of that date, Tengelmann owned 50% of the stock of the Company. Tengelmann subsequently increased its percentage ownership in the Company's common stock to 50.3% as of February 28, 1981.

Related Party Transaction—In addition to his normal compensation arrangement entered into directly with the Company, the Company's Chief Executive Officer is a party to an agreement with the Company's major stockholder (Tengelmann), whereby Tengelmann has agreed to make certain payments directly to the officer based upon the Closing Price (as defined under the agreement) of the Company's common stock. Under the terms of the agreement, Tengelmann will pay an amount equal to the excess of the Closing Price of the stock at April 30, 1990 (measurement date) over $4.00 per share on an aggregate of 1,794,593 shares. All rights of the officer under the agreement vest on May 1, 1985 and at the option of the officer, the measurement date can be accelerated to May 1, 1985 or any date thereafter. At anytime on or after May 1, 1985, the officer may request payment in part or whole based upon the Closing Price of the stock on the measurement date. The Company has considered the applicability of existing accounting literature, including Interpretation No. 1 to APB Opinion No. 25, "Stock Plans Established by a Principal Stockholder," in relation to this transaction and believes that under the particular facts and circumstances, it would be misleading for the Company to recognize compensation expense from this transaction.

Subsequent Event (unaudited)—On April 21, 1981, the Company announced it had reached an agreement in principle to acquire Niagara Frontier Services, Inc., a Buffalo, New York based operator and franchiser of supermarkets and convenience food outlets. The terms of the acquisition, which are subject to approval by various parties, provide for the purchase of the Niagara shares for approximately $80 million in cash and notes or debentures.

The Effects of Changing Prices (unaudited)

Basis of preparation—The supplementary financial data presented in the tables below disclose estimated effects of inflation on certain historical financial data as required by Statement No. 33 of the Financial Accounting Standards Board (FASB No. 33), Financial Reporting and Changing Prices. The Company's primary financial statements are presented on an historical cost basis, that is, on a basis of the prices in effect when the transactions occurred.

The data which follow attempt to adjust the historical amounts for the effects of inflation. The required disclosures are experimental in nature and two separate approaches to presenting the data are mandated, as follows:

The *Constant Dollar* basis presents historical cost information adjusted for changes in the general purchasing power of the dollar. The Consumer Price Index for All Urban Consumers (CPI-U), prepared by the U.S. Department of Labor, is used to measure the effects of general inflation. These constant dollar basis disclosures do not purport to represent appraisal values, replacement cost or any other measure of current values.

The *Current Cost* basis reflects historical cost information adjusted to show the estimated current costs of inventory and property, plant and equipment which have generally increased over time at a rate different from that of the Consumer Price Index.

Because of the rapid turnover of inventories, the carrying value of inventories is assumed to approximate current cost; therefore, cost of merchandise sold reflects approximate current cost at time of sale.

The current cost calculations for acquiring the same service potential as the Company's owned assets involve a number of judgments as well as use of estimating techniques employed to limit the cost of accumulating the data. The data reported should not be thought of as precise measurements of the assets and expenses involved, but instead approximations of the price changes that have occurred in the Company's operating environment.

The current cost of stores operating under capital leases and store equipment was estimated using the unit pricing method. The current cost of all other fixed assets was estimated using the indexing method. Current cost depreciation is based on the average current cost of property and equipment during the year. Depreciation expense was computed by applying the ratio of historical cost depreciation expense to historical asset cost to the current cost of these assets.

FASB No. 33 requires that income taxes paid not be adjusted for the effects of general inflation and specific prices and also requires adjustment of inventories but not the related accounts payable amounts in determining cost of merchandise sold in the constant dollar calculations.

Statement of Income (Loss) from Continuing Operations Adjusted for Changing Prices

At February 28, 1981 (Dollars in thousands)	Historical Financial Statements	Adjusted For: General Inflation (Constant $)	Adjusted For: Specific Prices (Current Cost)
Statement of Consolidated Operations			
Sales	$6,989,529	$6,989,529	$6,989,529
Cost and expenses:			
Cost of merchandise sold	5,512,202	5,571,334	5,512,202
Depreciation and amortization	67,902	107,896	125,299
Other costs	1,445,474	1,445,474	1,445,474
Total cost and expenses	7,025,578	7,124,704	7,082,975
Income (loss) before income taxes	(36,049)	(135,175)	(93,446)
Net (loss)	(43,049)	(142,175)	(100,446)
Changes in carrying values			
Gain from decline in the purchasing power of net amounts owed		71,475	71,475
Increase in current cost of inventories and property, plant and equipment			143,793
Less effect of increase in general price level			95,771
Excess of increases in specific prices over increase in the general price level			48,022

Property, Plant and Equipment—Net Adjusted for Changes in Specific Prices

At February 28, 1981 (Dollars in thousands)	As Reported	As Adjusted
Property, plant and equipment—net	$515,387	$942,464

Five-Year Comparison of Selected Supplementary Financial Data Adjusted for Effects of Changing Prices

For the Fiscal Year (Dollars in thousands, except per share amounts)	1980	1979	1978	1977	1976
Sales	**$6,989,529**	$7,559,806	$9,464,058	$9,978,062	$10,571,583
Historical cost information adjusted for general inflation:					
Net (loss)	**(142,175)**	(120,217)			
Net (loss) per common share	**(4.47)**	(4.83)			
Net assets at year end	**701,179**	729,961			
Historical cost information adjusted for specific prices:					
Net (loss)	**(100,446)**	(46,511)			
Net (loss) per common share	**(3.16)**	(1.87)			
Excess of increases in specific prices over increases in the general price level	**48,022**	(71,260)			
Net assets at year end	**799,326**	782,408			
Other information:					
Purchasing power gain on net amounts owed	**71,475**	97,569			
Cash dividends per common share	**—**	—	.07	.21	—
Market price per common share at year end	**$ 5.75**	$ 8.11	$ 8.65	$ 11.00	$ 16.67
Average consumer price index	**251.3**	222.2	198.4	183.5	172.0

The Effects of Changing Prices (continued)

Management Overview—The effect of inflation on the food distribution industry in general has been significant over the past several years. The additional costs incurred by farmers, food processors and wholesalers are passed on to the Company. Due to the competitive nature of the retail supermarket business, the Company has been unable to pass on these costs fully to the customer. The opportunities for the Company to control inflationary costs are limited, particularly with respect to labor and energy. This trend is also compounded by the growing tendency of customers to buy less expensive items, thus spending the same total dollars on lower margin purchases.

The effect of inflation on the Company's financial results is significant as it relates to inventory, the historical cost of property, plant and equipment (including real property and equipment leased under capital leases) and the related depreciation and amortization expense. Because property, plant and equipment are purchased over an extended period of time, ongoing replacement of existing facilities would be at a much greater cost than that reflected on the balance sheet in historical dollars. Also, depreciation and amortization expense, as reflected in the Company's primary financial statements, includes a ratable portion of those historical dollar costs of property, plant and equipment against sales which are stated in current dollars. The difference between the Statement of Income (Loss) from Continuing Operations Adjusted for Changing Prices and the primary financial statements is due to the effect of adjusting inventory balances and related cost of merchandise sold and the increase in depreciation and amortization expense to reflect average fiscal 1980 dollars and specific prices.

The management of the Company cautions that the data presented reflect the effects of the overall inflation rate as measured by the CPI-U and specific prices. Such data are not necessarily indicative of the impact of inflation on the Company's operations. No attempt has been made to calculate the benefit derived from potential price increases to offset the higher depreciation and amortization costs, nor does such data reflect economies, such as sales and labor productivity and more efficient use of energy, which normally accompany the investment in new productive capacity or the fact that certain square footage may not be replaced. Also, the effect of inflation on accounts payable in the constant dollar calculation is not considered. Additionally, no attempt has been made to determine the effect of inflation on the Company's operating leases.

Auditors' Opinion

Deloitte Haskins & Sells
Certified Public Accountants

To the Stockholders and Board of Directors of The Great Atlantic & Pacific Tea Company, Inc.:

We have examined the consolidated balance sheets of The Great Atlantic & Pacific Tea Company, Inc. and subsidiary companies as of February 28, 1981 and February 23, 1980 and the related statements of consolidated operations, of consolidated stockholders' equity and of changes in consolidated financial position for each of the three fiscal years in the period ended February 28, 1981. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, such financial statements present fairly the financial position of the companies at February 28, 1981 and February 23, 1980 and the results of their operations and changes in their financial position for each of the three fiscal years in the period ended February 28, 1981, in conformity with generally accepted accounting principles applied on a consistent basis.

Deloitte Haskins & Sells

DELOITTE HASKINS & SELLS
411 Hackensack Avenue
Hackensack, New Jersey 07601

April 15, 1981

Statement of Consolidated Operations

(Dollars in thousands, except per share figures)	Fiscal 1980 (53 weeks)	Fiscal 1979 (52 weeks)	Fiscal 1978 (52 weeks)
Sales	$6,989,529	$6,684,179	$7,469,659
Cost of merchandise sold	5,512,202	5,241,050	5,865,637
Gross margin	1,477,327	1,443,129	1,604,022
Store operating, general and administrative expense	1,421,457	1,348,426	1,505,722
Depreciation and amortization	67,902	67,564	74,432
Income (loss) from operations	(12,032)	27,139	23,868
Anticipated cost of Restructuring Program	—	—	(51,669)
Interest (expense) income:			
Capital leases	(22,787)	(22,282)	(23,420)
Interest expense	(13,678)	(13,399)	(15,432)
Interest income	12,448	9,400	4,398
Interest expense—net	(24,017)	(26,281)	(34,454)
Income (loss) before income taxes	(36,049)	858	(62,255)
(Provision) credit for income taxes	(7,000)	(4,665)	10,069
Net (loss)	$ (43,049)	$ (3,807)	$ (52,186)
Per common share:			
Net (loss)	$ (1.35)	$ (.15)	$ (2.10)
Dividends	$ —	$ —	$ .05

Statement of Consolidated Stockholders' Equity

(Dollars in thousands)	Fiscal 1980 (53 weeks)	Fiscal 1979 (52 weeks)	Fiscal 1978 (52 weeks)
Common stock:			
Balance forward	$ 24,893	$ 24,892	$ 24,892
Exercise of options	—	1	—
Increase due to rights offering	12,500	—	—
	$ 37,393	$ 24,893	$ 24,892
Capital surplus:			
Balance forward	$ 377,301	$ 377,299	$ 377,299
Exercise of options	1	2	—
Increase due to rights offering	43,750	—	—
	$ 421,052	$ 377,301	$ 377,299
Retained earnings (deficit):			
Balance forward	$ (8,103)	$ (4,296)	$ 49,135
Net (loss)	(43,049)	(3,807)	(52,186)
Dividends	—	—	(1,245)
	$ (51,152)	$ (8,103)	$ (4,296)

See Financial Review and Summary of Significant Accounting Policies on pages 12 through 20.

Consolidated Balance Sheet

Assets (Dollars in thousands)	**February 28, 1981**	February 23, 1980
Current assets:		
Cash and short-term investments	**$ 107,688**	$ 63,937
Accounts receivable	**45,355**	51,585
Inventories	**587,491**	543,871
Properties held for development and sale	**34,085**	30,166
Prepaid expenses	**7,431**	6,498
Total current assets	**782,050**	696,057
Property:		
Land	**11,847**	10,788
Buildings	**76,308**	76,350
Equipment	**369,640**	368,532
Store fixtures and leasehold improvements	**205,269**	188,585
Total—at cost	**663,064**	644,255
Less accumulated depreciation and amortization	**(294,527)**	(277,403)
	368,537	366,852
Real property leased under capital leases	**146,850**	154,758
Property—net	**515,387**	521,610
Other assets	**11,546**	12,855
	$1,308,983	$1,230,522

Liabilities and Stockholders' Equity (Dollars in thousands)		
Current liabilities:		
Current portion of long-term debt	**$ 1,737**	$ 1,686
Current portion of obligations under capital leases	**12,851**	11,877
Accounts payable	**331,383**	265,620
Accrued salaries, wages and benefits	**74,414**	81,197
Accrued taxes	**37,508**	33,818
Current portion of closing reserves and other accruals	**60,858**	67,866
Total current liabilities	**518,751**	462,064
Long-term debt	**130,032**	130,681
Obligations under capital leases	**202,617**	202,200
Deferred income taxes and investment tax credits	**4,071**	1,990
Closing reserves and other liabilities	**46,219**	39,496
Stockholders' equity:		
Preferred stock—no par value; authorized—3,000,000 shares; issued—none		
Common stock—$1 par value; authorized—80,000,000 and 40,000,000 shares; outstanding—37,392,784 and 24,892,584 shares	**37,393**	24,893
Capital surplus	**421,052**	377,301
Retained earnings (deficit)	**(51,152)**	(8,103)
Total stockholders' equity	**407,293**	394,091
	$1,308,983	$1,230,522

See Financial Review and Summary of Significant Accounting Policies on pages 12 through 20.

Statement of Changes in Consolidated Financial Position

(Dollars in thousands)	Fiscal 1980 (53 weeks)	Fiscal 1979 (52 weeks)	Fiscal 1978 (52 weeks)
Source of funds:			
From operations:			
Net (loss)	$(43,049)	$ (3,807)	$(52,186)
Expenses (income) not requiring (providing) working capital:			
Depreciation and amortization	56,695	56,299	61,825
Amortization of real property leased under capital leases	11,207	11,265	12,607
Anticipated cost of Restructuring Program (non-current portion)	—	—	17,900
Deferred income taxes	2,493	1,115	(8,804)
Deferred investment tax credits	(412)	(792)	(1,200)
Working capital provided from operations	26,934	64,080	30,142
Proceeds from rights offering	56,250	—	—
Disposition of property	9,464	26,285	19,781
Obligations under capital leases	1,540	(808)	34,980
Decrease in property leased under capital leases due to store closings, terminations and amendments	877	10,520	23,297
Proceeds from borrowings	1,270	4,658	—
Other	1,310	5,616	(1,667)
Total	97,645	110,351	106,533
Disposition of funds:			
Dividends	—	—	1,245
Expenditures for property	56,906	67,949	57,470
Property leased under capital leases	15,114	9,750	47,303
Decrease in obligations under capital leases due to store closings, terminations and amendments	1,123	11,906	28,370
Current maturities and repayment of long-term debt	1,919	6,615	1,589
Transfer of non-current reserves to (from) current liabilities	(6,723)	6,331	4,281
Total	68,339	102,551	140,258
Increase (decrease) in working capital	29,306	7,800	(33,725)
Working capital—beginning of year	233,993	226,193	259,918
Working capital—end of year	$263,299	$233,993	$226,193
Increase (decrease) in components of working capital:			
Cash and short-term investments	$ 43,751	$(30,779)	$ 68,179
Accounts receivable	(6,230)	3,748	(6,743)
Inventories	43,620	(654)	(47,832)
Properties held for development and sale	3,919	4,376	(18,521)
Prepaid expenses	933	342	(360)
	85,993	(22,967)	(5,277)
Accounts payable	65,763	598	(36,623)
Current portion of long-term debt	51	93	(35)
Current portion of obligations under capital leases	974	162	242
Accrued expenses	(3,093)	(12,178)	18,031
Current portion of closing reserves and other accruals	(7,008)	(19,442)	46,833
	56,687	(30,767)	28,448
Increase (decrease) in working capital	$ 29,306	$ 7,800	$(33,725)

See Financial Review and Summary of Significant Accounting Policies on pages 12 through 20.

Operating Results

Fiscal 1980 (53 weeks)
Compared with 1979 (52 weeks)
Sales for fiscal 1980 were $7.0 billion compared with $6.7 billion in fiscal 1979, a 4.6% increase. Sales from continuing stores were 1.2% higher in fiscal 1980, as compared with the prior fiscal year. The remainder of the increase is due to the expansion of the PLUS Discount Foods subsidiary and the inclusion of the 53rd week of sales. The inflation rate for food at home for the period was 8.7%. At the end of fiscal 1980, there were 1,543 stores in operation as compared with 1,542 at the end of fiscal 1979.

Gross margin increased $34.2 million, or 2.4% in fiscal 1980. Gross margin as a percentage of sales was 21.1% in fiscal 1980 and 21.6% in fiscal 1979. The decrease in the gross margin percentage is due to economic conditions and the adoption by the Company of a phased program of price reductions throughout the areas in which the Company does business. This was offset in part by higher margins from the Company's coffee roasting operations.

Store operating, general and administrative expense was $1.5 billion in fiscal 1980 compared with $1.4 billion in fiscal 1979, a 5.2% increase. This increase reflects the continued inflationary pressures on labor and other costs, particularly in U.S. supermarket operations as well as the provision of $9.4 million to cover the estimated costs of an employee severance and early retirement program offset in part by income of $2.3 million representing the Company's share of the settlement of a class action brought against certain folding carton manufacturers. Store operating, general and administrative expense as a percentage of sales was 21.3% in fiscal 1980 and 21.2% in fiscal 1979.

The net loss in fiscal 1980 aggregated $43.0 million, as compared with a net loss of $3.8 million in fiscal 1979. The increase in net loss is primarily due to the increase in store operating, general and administrative expense as explained above as well as the decrease in gross margin as a percentage of sales. The net loss trend is also compounded by the growing tendency of customers to buy less expensive items, thus spending the same total dollars on lower margin purchases.

Fiscal 1979 (52 weeks)
Compared with 1978 (52 weeks)
Sales for fiscal 1979 were $6.7 billion compared with $7.5 billion in fiscal 1978, a 10.5% decrease. This decrease was primarily the result of a net reduction of 229 stores during the year including 184 stores which were closed as part of the Restructuring Program. Sales from continuing stores were 1.9% lower in fiscal 1979, as compared with the previous fiscal year while the inflation rate for food at home increased approximately 10.6%.

Gross margin decreased $161 million, or 10.0%, in fiscal 1979, as compared with fiscal 1978. Gross margin as a percentage of sales was 21.6% in fiscal 1979 and 21.5% in fiscal 1978. While gross margin as a percentage of sales increased .1% in fiscal 1979 compared with fiscal 1978, it decreased during the last half of this year due principally to the inability of the Company to fully pass along increased costs to customers, offset, in part, by the elimination of many lower margin stores closed in connection with the Restructuring Program.

Store operating, general and administrative expense was $1.4 billion in fiscal 1979 compared with $1.6 billion in fiscal 1978, a 10.4% decrease. This decrease resulted primarily from the closing of 229 stores during the year, offset, in part, by costs incurred in the start up of the Company's new subsidiary, PLUS Discount Foods Inc. Store operating, general and administrative expense as a percentage of sales was 21.2% for both fiscal 1979 and fiscal 1978.

The net loss in fiscal 1979 aggregated $3.8 million, as compared with a net loss of $52.2 million in fiscal 1978. The net loss in fiscal 1979 reflects continuing pressure on gross margins, as previously discussed, as well as the start-up and conversion costs in connection with the Company's new subsidiary, PLUS Discount Foods Inc. As discussed below, the fiscal 1978 loss includes reserves of $40 million and $3.9 million.

Fiscal 1978 (52 weeks)
Compared with 1977 (52 weeks)
Sales for fiscal 1978 were $7.5 billion compared with $7.3 billion in fiscal 1977, a 2.5% increase. This increase was due primarily to inflation and to the opening of 52 stores, net of the impact of closing 186 stores (exclusive of the closings relative to the Restructuring Program).

Gross margin as a percentage of sales increased from 21.3% in fiscal 1977 to 21.5% in fiscal 1978 due principally to improvements in product mix and a reduction in inventory losses.

Store operating, general and administrative expense as a percentage of sales increased from 20.8% in fiscal 1977 to 21.2% in fiscal 1978 primarily due to increased labor and benefit costs, increased marketing and promotional costs, utility costs and higher rent in new and enlarged stores offset, in part, by reductions in administrative costs.

During the fourth quarter of 1978, a $40 million reserve, net of a reversal of deferred taxes totaling $11.7 million, was provided in connection with the Restructuring Program initially involving the closing of approximately 174 stores and certain manufacturing facilities, administrative offices and a warehouse.

The net loss in fiscal 1978 aggregated $52.2 million, as compared with net income of $.6 million in

fiscal 1977. The loss for fiscal 1978 was principally attributable to the anticipated cost of the Restructuring Program previously discussed, as well as the higher store operating, general and administrative expense.

Included in the second quarter of 1978 is a charge of approximately $3.9 million, representing the estimated losses on stores and other facilities closed under the Company's continuing program of evaluating all aspects of its operations.

Liquidity and Capital Resources

The Company finished the fiscal year in a liquid position with working capital at February 28, 1981 of $263.3 million as compared with $234.0 million and $226.2 million at February 23, 1980 and February 24, 1979, respectively. The Company had cash and short-term investments aggregating $107.7 million at the end of fiscal 1980 as compared with $63.9 million and $94.7 million at the end of fiscal 1979 and fiscal 1978, respectively. The Company has lines of credit totaling $92 million available from commercial banks which have not been utilized for a period of approximately three years. Although the bank lines were established to finance seasonal inventory peaks, all inventory requirements in fiscal 1980 and 1979 were funded out of cash flow.

During fiscal 1980, the Company financed its $67.8 million capital requirements through internally generated cash flow, leveraged lease financing, industrial revenue bond financing and a successful equity rights offering. The Company was able to achieve this expenditure level despite the net loss of $43.0 million. The rights offering resulted in capital infusion of approximately $56.3 million.

For fiscal 1981, the Company has forecast capital expenditures of approximately $110 million which it expects to finance primarily through internally generated funds. The Company's results of operations are expected to be improved over the 1980 level and depreciation expense should be approximately $60 million. The Company plans to continue its program of leveraged lease financing for store fixtures and expects to generate additional cash through the sale and leaseback of Company developed store properties.

See Subsequent Event footnote regarding agreement in principle to acquire Niagara Frontier Services, Inc.

Five-Year Summary of Selected Financial Data

(Dollars in thousands, except per share figures)

For the Fiscal Year	**1980 (b)**	1979	1978	1977	1976
Sales	**$ 6,989,529**	$ 6,684,179	$ 7,469,659	$ 7,288,577	$ 7,235,854
Income (loss) before extraordinary item	**(43,049)**	(3,807)	(52,186)	569	11,162
Total assets	**1,308,983**	1,230,522	1,281,226	1,305,967	1,227,097
Working capital	**263,299**	233,993	226,193	259,918	234,045
Current ratio	**1.51**	1.51	1.46	1.56	1.54
Long-term debt	**130,032**	130,681	132,638	134,227	107,592
Obligations under capital leases	**202,617**	202,200	214,914	208,304	196,570
Income (loss) per share before extraordinary item (a)	**(1.35)**	(.15)	(2.10)	.02	.45
Cash dividends per share	**—**	—	.05	.15	—
Weighted average shares outstanding	**31,833,356**	24,892,137	24,892,084	24,892,084	24,885,630
Number of stockholders	**33,404**	34,704	36,556	38,012	40,200
Number of employees	**60,000**	63,000	72,000	81,000	90,000
Number of stores	**1,543**	1,542	1,771	1,905	1,978
Total store-area (square feet)	**33,052,000**	33,057,000	36,935,000	38,354,000	38,478,000

(a) Based on the weighted average number of common shares outstanding each year.
(b) 53 weeks; all other years contained 52 weeks.

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